

## RATING REPORT

### Topline Securities Limited

**REPORT DATE:**

March 19, 2021

**RATING ANALYSTS:**

Narendar Shankar Lal

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#### RATING DETAILS

Rating Category	Latest Rating		Previous Rating	
	Long-term	Short-term	Long-term	Short-term
Entity	A	A-2	A-	A-2
Rating Outlook	Stable		Positive	
Rating Date	March 19, 2021		April 24, 2020	

#### COMPANY INFORMATION

Incorporated in 2001	External auditors: M/s Naveed Zafar Ashfaq Jaffery & Co. - Chartered Accountants
Public Unlisted	Chairman of the Board: Mr. Mohammad Sohail
Key Shareholders (with stake 5% or more):	Chief Executive Officer: Mr. Mohammad Sohail
Mr. Mohammad Sohail – 70.91%	
Mr. Haroon Fatani – 22.3%	
Mr. Muhammad Amir Fatani – 6.8%	

#### APPLICABLE METHODOLOGY(IES)

VIS Entity Rating Criteria Methodology – Securities Firms Rating (July 2020)

<https://s3-us-west-2.amazonaws.com/backupsqvis/docs/SecuritiesFirm202007.pdf>

**Topline Securities Limited**

**OVERVIEW OF THE INSTITUTION**

**RATING RATIONALE**

Topline Securities Limited (TSPL) was incorporated under the Companies Ordinance 1984. The company is a TRE certificate holder of Pakistan Stock Exchange. M/s Naveed Zafar Ashfaq Jaffery & Co., Chartered Accountants audited Topline’s Financial Statements for FY20.

**Profile of Chairman & CEO**

Mr. Muhammad Sohail holds dual position of Chairman and CEO in the company. Mr. Sohail is an entrepreneur possessing approximately 26 years’ experience in capital markets including research and equity sales. Mr. Sohail holds an MBA degree and is a certified director from Pakistan Institute of Corporate Governance.

Topline Securities Limited (TSPL) is engaged in the business of stock brokerage, commodity brokerage, underwriting, consultancy, book bidding, and advisory services. Shareholding of the company is primarily vested with Mr. Mohammad Sohail, who also serves as the CEO of the company. The company provides both online and physical trading services to local and foreign clients.

**Key Rating Drivers:**

**Performance of the brokerage industry is closely linked to the performance of the domestic capital market, which in turn is dependent on overall economic cycles. Improved volumes of PSX with economic recovery post COVID-19 lockdown are expected to support performance of the brokerage industry over the medium term**

Performance of the equity market was dismal during FY18 and FY19 with dwindling trading volumes largely owing to economic slow-down, increasing interest rate environment and aggressive foreign selling. COVID-19 pandemic further exacerbated the situation and eroded significant value of PSX till March 2020. However, with ease in COVID-19 lockdown, recovery has been observed in the macroeconomic indicators as indicated by improved current account position, currency stabilization, rising forex exchange reserves and a rebound in large scale manufacturing. Market volumes showcased an increase of around ~27% in FY20 largely driven by high index volatility experienced during the period (given the impact of covid-19 and subsequent economic recovery). The growth momentum continued in the ongoing fiscal year with overall PSX volumes clocking in at ~74b in 1HFY21.

<b>PSX Data (Ready + Future)</b>	<b>FY18</b>	<b>FY19</b>	<b>FY20</b>	<b>1HFY20</b>	<b>1HFY21</b>
<b>Volume (In Billions)</b>	58	55	68	36	74
<b>Value (In Billions)</b>	2,881	2,354	2,552	1,300	2,931

Outlook for the brokerage industry is considered favorable with volumes expected to be noticeably higher in the ongoing fiscal year vis-à-vis FY20.

**Sizeable institutional client business**

TSPL has historically focused on high net worth institutional business and sizeable foreign brokerage business given the higher margins in the segment. This is also reflective in higher commission per share of the company vis-à-vis industry peers. Brokerage income from institutional clients continues to constitute approximately three-fourth of the total brokerage income.

**Operating profitability has depicted improvement on account of increase in operating revenue and controlled growth in expenses**

Recurring revenue of the company increased by 24% in FY20 vis-à-vis FY19 (FY20: Rs. 289.5m; FY19: Rs 234.4m). Increase in recurring revenue can be primarily attributed to significant growth in the advisory income as well as higher brokerage income. Quantum of brokerage and advisory income was reported at Rs. 215.8m (FY19: Rs. 201.6m) and Rs. 47.1m

(FY19: Rs. 18.9m), respectively. TSPL has historically focused on high net worth institutional business and foreign brokerage business given the higher margins in the segment. Therefore, approximately 71% (FY19: 75%) of the equity brokerage revenue was generated from institutional clients in FY20. While the growth in recurring revenue was significant, the management's focus on maintaining cost efficient structure resulted in controlled growth in operating expenses (FY20: 170.1m; FY19: Rs. 168.1m). Resultantly, efficiency (cost to income) ratio of the company improved to 62.5% (FY19: 74.4%).

Trend of improvement in recurring revenue continued in 1Q'FY21 as the recurring revenue witnessed more than threefold increase in comparison to the corresponding period in the preceding year. With such significant increase in the recurring revenue, efficiency ratio also witnessed marked improvement to 56.1% (Q1'FY20: 78.4%) in 1Q'FY21. Given the favorable equity market outlook over the medium term, management expects improvement trend in profitability to continue going forward.

**Conservative standalone risk profile; Low credit risk given high proportion of IDS in overall institutional volumes while market risk is also limited given conservative proprietary book management strategy**

Credit risk of the company is considered manageable given that over four-fifth of the institutional trade volume of transactions conducted through Institutional Delivery System (IDS). With respect to foreign institutions, all trades are dealt by custodian banks which have been inducted as Custodian Clearing Members (CCM) of NCCPL. Moreover, ageing of receivables is also considered satisfactory with around 91% of the trade debts outstanding for less than 15 days.

Although size of the proprietary investments considerably increased to Rs 514.7m (FY20: Rs. 277.5; FY19: Rs. 18.0m), market risk emanating from the same is considered limited as 45% of total investments are deployed in ready future arbitrage transactions, while the remaining proportion constitutes investments in money market funds and t-bills. Going forward, the company will continue to maintain a conservative approach with regards to management of proprietary book.

**Sound capitalization and liquidity indicators**

At end-Q1'FY21, total equity base of the company was reported higher at Rs. 910.4m (FY20: Rs. 869.4m; FY19: Rs. 795.8m). Growth in equity base was manifested on account of profit retention. Net Capital Balance stood at Rs. 770.3m (FY20: 770.9m; FY19: Rs. 640.1m) at end-Q1'FY21, thereby exhibiting considerable cushion over the regulatory requirement. Leverage and gearing indicators remain sound at 0.33x (FY20: 0.19x; FY19: 0.26x) and nil (FY20: nil; FY19: nil) at end-September 2020. Liquidity profile of the company is also considered strong with liquid assets in relation to total liabilities reported at 279.8% (FY20: 470.9%; FY19: 351.2%) at end-September 2020. Maintenance of liquidity and capitalization indicators at existing levels is considered important from ratings perspective.

FINANCIAL SUMMARY (amounts in PKR millions)					Appendix I
<b><u>BALANCE SHEET</u></b>					
	<b>30-Jun-18</b>	<b>30-Jun-19</b>	<b>30-Jun-20</b>	<b>30-Sep-20</b>	
Trade Debts	57.6	85.6	49.8	119.0	
Long Term Investments	21.4	-	-	-	
Cash and Bank balances	407.9	382.7	405.5	308.0	
Short Term Investments	90.4	18.0	277.5	514.7	
<b>Total Assets</b>	<b>957.3</b>	<b>931.5</b>	<b>1,034.8</b>	<b>1,215.3</b>	
Trade and Other Payables	282.6	191.0	164.7	298.8	
Long Term Loans	-	-	-	-	
Short Term Loans	0.4	-	-	-	
<b>Total Liabilities</b>	<b>284.3</b>	<b>194.3</b>	<b>165.5</b>	<b>304.9</b>	
Issued, subscribed and Paid up capital	150.0	150.0	150.0	150.0	
<b>Net Worth (excluding revaluation surplus)</b>	<b>672.9</b>	<b>737.1</b>	<b>869.4</b>	<b>910.4</b>	
<b><u>INCOME STATEMENT</u></b>					
	<b>30-Jun-18</b>	<b>30-Jun-19</b>	<b>30-Jun-20</b>	<b>30-Sep-20</b>	
Total Revenue (including capital gains)	285.4	220.9	293.5	90.5	
Brokerage Income	237.2	176.2	185.6	N/A	
Advisory Income	25.4	18.9	47.1	N/A	
<b>Total Recurring Income</b>	<b>288.6</b>	<b>234.4</b>	<b>289.5</b>	<b>87.9</b>	
Operating & Administrative Expenses	196.1	168.1	170.1	46.3	
Finance Costs	3.3	6.3	10.8	3.0	
<b>Profit Before Tax</b>	<b>112.3</b>	<b>84.8</b>	<b>164.3</b>	<b>53.0</b>	
<b>Profit After Tax</b>	<b>77.6</b>	<b>64.2</b>	<b>132.2</b>	<b>41.0</b>	
<b><u>RATIO ANALYSIS</u></b>					
	<b>30-Jun-18</b>	<b>30-Jun-19</b>	<b>30-Jun-20</b>	<b>30-Sep-20</b>	
Liquid Assets to Total Liabilities	264.5%	351.2%	470.9%	279.8%	
Liquid Assets to Total Assets	78.5%	73.3%	75.3%	70.2%	
Current Ratio (x)	3.23	4.71	6.15	3.92	
Leverage	0.42	0.26	0.19	0.33	
Gearing	0.001	-	-	-	
Efficiency (%)	69.1%	74.4%	62.5%	56.1%	
ROAA (%)	7.2%	6.8%	13.5%	14.6%	
ROAE (%)	12.1%	9.1%	16.5%	18.5%	

**VIS** Credit Rating Company Limited

**RATING SCALE & DEFINITIONS: ISSUES / ISSUERS**

**Medium to Long-Term**

**AAA**

Highest credit quality; the risk factors are negligible, being only slightly more than for risk-free Government of Pakistan's debt.

**AA+, AA, AA-**

High credit quality; Protection factors are strong. Risk is modest but may vary slightly from time to time because of economic conditions.

**A+, A, A-**

Good credit quality; Protection factors are adequate. Risk factors may vary with possible changes in the economy.

**BBB+, BBB, BBB-**

Adequate credit quality; Protection factors are reasonable and sufficient. Risk factors are considered variable if changes occur in the economy.

**BB+, BB, BB-**

Obligations deemed likely to be met. Protection factors are capable of weakening if changes occur in the economy. Overall quality may move up or down frequently within this category.

**B+, B, B-**

Obligations deemed less likely to be met. Protection factors are capable of fluctuating widely if changes occur in the economy. Overall quality may move up or down frequently within this category or into higher or lower rating grade.

**CCC**

Considerable uncertainty exists towards meeting the obligations. Protection factors are scarce and risk may be substantial.

**CC**

A high default risk

**C**

A very high default risk

**D**

Defaulted obligations

**Rating Watch:** VIS places entities and issues on 'Rating Watch' when it deems that there are conditions present that necessitate re-evaluation of the assigned rating(s). Refer to our 'Criteria for Rating Watch' for details. [www.vis.com.pk/images/criteria\\_watch.pdf](http://www.vis.com.pk/images/criteria_watch.pdf)

**Rating Outlooks:** The three outlooks 'Positive', 'Stable' and 'Negative' qualify the potential direction of the assigned rating(s). An outlook is not necessarily a precursor of a rating change. Refer to our 'Criteria for Rating Outlook' for details. [www.vis.com.pk/images/criteria\\_outlook.pdf](http://www.vis.com.pk/images/criteria_outlook.pdf)

**{SO} Rating:** A suffix (SO) is added to the ratings of 'structured' securities where the servicing of debt and related obligations is backed by some sort of financial assets and/or credit support from a third party to the transaction. The suffix (SO), abbreviated for 'structured obligation', denotes that the rating has been achieved on grounds of the structure backing the transaction that enhanced the credit quality of the securities and not on the basis of the credit quality of the issuing entity alone.

**Short-Term**

**A-1+**

Highest certainty of timely payment; Short-term liquidity, including internal operating factors and /or access to alternative sources of funds, is outstanding and safety is just below risk free Government of Pakistan's short-term obligations.

**A-1**

High certainty of timely payment; Liquidity factors are excellent and supported by good fundamental protection factors. Risk factors are minor.

**A-2**

Good certainty of timely payment. Liquidity factors and company fundamentals are sound. Access to capital markets is good. Risk factors are small.

**A-3**

Satisfactory liquidity and other protection factors qualify entities / issues as to investment grade. Risk factors are larger and subject to more variation. Nevertheless, timely payment is expected.

**B**

Speculative investment characteristics; Liquidity may not be sufficient to ensure timely payment of obligations.

**C**

Capacity for timely payment of obligations is doubtful.

**(blr) Rating:** A suffix (blr) is added to the ratings of a particular banking facility obtained by the borrower from a financial institution. The suffix (blr), abbreviated for 'bank loan rating' denotes that the rating is based on the credit quality of the entity and security structure of the facility.

**'p' Rating:** A 'p' rating is assigned to entities, where the management has not requested a rating, however, agrees to provide informational support. A 'p' rating is shown with a 'p' subscript and is publicly disclosed. It is not modified by a plus (+) or a minus (-) sign which indicates relative standing within a rating category. Outlook is not assigned to these ratings. Refer to our 'Policy for Private Ratings' for details. [www.vis.com.pk/images/policy\\_ratings.pdf](http://www.vis.com.pk/images/policy_ratings.pdf)

**'SD' Rating:** An 'SD' rating is assigned when VIS believes that the ratee has selectively defaulted on a specific issue or obligation but it will continue to meet its payment obligations on other issues or obligations in a timely manner.

REGULATORY DISCLOSURES		Appendix III			
<b>Name of Rated Entity</b>	Topline Securities Limited				
<b>Sector</b>	Brokerage				
<b>Type of Relationship</b>	Solicited				
<b>Purpose of Rating</b>	Entity Rating				
<b>Rating History</b>	<b>Rating Date</b>	<b>Medium to Long Term</b>	<b>Short Term</b>	<b>Rating Outlook</b>	<b>Rating Action</b>
	<b>RATING TYPE: ENTITY</b>				
	19-Mar-21	A	A-2	Stable	Upgrade
	24-Apr-20	A-	A-2	Positive	Maintained
	18-Jan-19	A-	A-2	Stable	Reaffirmed
	19-July-17	A-	A-2	Stable	Reaffirmed
22-Mar-16	A-	A-2	Stable	Initial	
<b>Instrument Structure</b>	N/A				
<b>Statement by the Rating Team</b>	VIS, the analysts involved in the rating process and members of its rating committee do not have any conflict of interest relating to the credit rating(s) mentioned herein. This rating is an opinion on credit quality only and is not a recommendation to buy or sell any securities.				
<b>Probability of Default</b>	VIS' ratings opinions express ordinal ranking of risk, from strongest to weakest, within a universe of credit risk. Ratings are not intended as guarantees of credit quality or as exact measures of the probability that a particular issuer or particular debt issue will default.				
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<b>Due Diligence Meetings Conducted</b>	<b>S.No</b>	<b>Name</b>	<b>Designation</b>	<b>Date</b>	
	1.	Mr. Khalid Mehmood	CFO & Company Secretary	January 21, 2020	